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UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

EDITORIAL

After declining continuously for ten years, most commodity prices plunged to historically low levels in 1991. Further falls earlier this year and the continuing accumulation of large stocks of many important commodities point to the likely persistence of depressed prices for months, even years, to come. The current, mild recovery in demand for commodities, perhaps indicative of stronger economic growth in some major developed countries, should not, therefore, be allowed to divert attention away from the serious consequences of the world market situation for the many developing countries which depend heavily on commodities for their livelihood.

The plight of these countries is dramatic indeed. Suffice it to recall that 40 African countries derive more than 70 per cent of their export earnings from the sale of commodities. Worse still, this high level of dependency has hardly changed in ten years! In such a situation, price movements, even small ones, can have grave consequences. Thus a mere drop of 10 cents per pound in the price of coffee, for example, translates into a 20 per cent fall in export earnings for Uganda and one of 10 per cent for Burundi. Put another way, shortfalls in commodity export earnings over the past decade have represented as much as four years of lost earnings for a country such as Sao Tome and Principe and an average of nine months' earnings for the least developed countries and six months for Africa. In some cases, countries have had no choice but to produce two or three times as much of the same commodity simply to maintain their income at the level of ten years previously.

Appropriate solutions need to be sought urgently. The UNCTAD VIII decisions relating to commodities, including the forthcoming discussions on a world conference, provide an opportunity for organizing concrete action at the national and international levels. Such action will need to focus on optimizing the contribution of the commodity sector to development, on achieving a gradual reduction in excessive commodity dependence through horizontal and vertical diversification of the sector, on improving market access for exporters as well as market transparency, and on an environmentally-sound management of natural resources.

Whatever form of action is taken, the hopes of millions of people for a better future depend primarily on a combination of a stronger political will and a determined exploration of new avenues. These could include efforts to help countries minimize the risks arising from commodity market fluctuations by exploring the scope for a wider use of various mechanisms for risk management, including market-based price-hedging devices such as commodity futures and options and longer-term instruments like commodity swaps and bonds; and in promoting higher productivity and increased competitiveness through the introduction of new technologies and improved managerial methods. With its broad expertise in commodity matters, including in the areas just mentioned, and the new focus of its Standing Committee on Commodities, UNCTAD is well placed to make a positive contribution to these common efforts.

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 183 member States, including the 178 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff–part of the United Nations Secretariat–numbers about 400 and is headed by a Secretary-General, currently Mr. Kenneth K. S. Dadzie (Ghana).

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Michael C. Bonello, Editor

BOARD ACTS ON REFORMS DECIDED AT UNCTAD VIII

As it had been called upon to do by UNCTAD VIII, the spring session of the Trade and Development Board acted to implement the institutional reforms agreed by the Conference. A centrepiece of the Board's activity was the adoption on 7 May of terms of reference for its nine new subsidiary bodies, thus formally setting in motion the reformed intergovernmental machinery. The latter now consists of four Standing Committees and five *ad hoc* Working Groups.[1] While the former are established for a four-year period, the latter have a two-year life span and have a different function in that they are intended to explore complex issues which require detailed technical study.

Underlying the terms of reference of all the new bodies is an increased focus on national experiences and policies. This should enable the international community to draw lessons and identify guidelines which countries can apply in conformity with their own particular circumstances. Another key feature of the terms of reference is the importance attached to research and analysis as an essential foundation for future work in UNCTAD, and to technical co-operation, which should increasingly become a vehicle for translating the results of the former into operational activities.

General Provisions

The specific terms of reference of each intergovernmental body are accompanied by a set of General Provisions which apply equally to all the new bodies. These require the Standing Committees and the Working Groups, for example, to "be inspired by the need to promote international consensus on principles and strategies for policy action at the national and international levels". They should also "provide a forum for the exchange of experiences among member States so as to enable them to draw appropriate lessons for the formulation and implementation of policies at the national and international levels and for international economic co-operation". Furthermore, they are enjoined to "take due account of the diversity of country situations and experiences". Depending on the issue under discussion, moreover, they can seek the participation of non-governmental actors, particularly enterprises, trade unions, the academic community and non-governmental organizations as well as international institutions. The General Provisions also reflect a concern to avoid duplication with work undertaken by other international bodies.

On the same occasion the Board adopted an understanding according to which the Standing Committees and Working Groups will take into account in their work the results of the review and follow-up by the Board of progress in the implementation of the Programme of Action for the Least Developed Countries (LDCs) for the 1990s.

Standing Committees

Commodities

The new Standing Committee on Commodities is "to promote sound, compatible and consistent policies" at both national and international levels in this field. It will "analyse the need for, and encourage when considered necessary, the achievement of viable and efficient international agreements or arrangements that take into account market trends, as well as study groups, both autonomous and within UNCTAD". The need to take into account market trends and to bear in mind the particular characteristics and situation of individual commodities are two major guidelines that permeate the Committee's mandate.

One specific aim of the Committee is to improve the functioning of commodity markets by reducing the distortions between supply and demand. It should also help to enhance competitiveness, as well as horizontal and vertical diversification in the commodity sector as a means of development, and will compare national policies. It is called upon to seek greater use of various mechanisms for risk management, including market-linked mechanisms, to minimize the impact of market fluctuations. A new objective is to explore "the links between commodity policies, sound management of natural resources and achievement of sustainable development".

At the international level the Committee should promote trade liberalization for commodity products and improve market transparency. Following a decision also adopted by UNCTAD VIII, the Committee is requested to assist the Trade and Development Board in assessing the question of convening a world conference on commodities. Meanwhile, UNCTAD will continue to study the situation of, and prospects for, commodities; compile statistical reports on commodity production, prices and trade; and review developments in the field of compensatory financing of export earnings shortfalls.

[1] *In addition, two previously existing specialized bodies, dealing with trade preferences and restrictive business practices respectively, which were not affected by the Conference decisions have been retained.*

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Poverty Alleviation

Recognizing that peace and prosperity are indivisible and require both national and international efforts, the Board has mandated the Standing Committee on Poverty Alleviation to undertake essentially action-oriented work. This includes the identification of national and international policy options to prevent and reduce poverty, "bearing in mind the diversity of country situations, including the particular problems of the least developed countries and the most vulnerable population groups".

The causes and dynamics of poverty will be analysed and, on the basis of national experiences, a list of key socio-economic areas for action will be explored from an integrated point of view. The impact of development assistance, including emergency aid, will be discussed. The Committee will also consider questions related to the financing and organization of social development programmes in developing countries, particularly in the areas of health, education, housing and sanitation. Other linkages with poverty will be examined in the areas of trade, sustainable development and demography.

Economic Co-operation among Developing Countries

The strengthening of economic co-operation among developing countries (ECDC) remains a major subject for intergovernmental consideration in UNCTAD. The newly-created Standing Committee on ECDC will both analyse past experiences "with a view to recommending measures to strengthen and enlarge" existing economic co-operation among developing countries and identify "new potentials for co-operation, including with other countries interested in such co-operation". Moreover, it should "facilitate innovative ways of organizing ECDC on the basis of common interests of particular groups of countries in issues of their particular interest".

The Committee will also identify specific ECDC programmes that would usefully benefit from voluntary external support. More generally, the Committee's activities should aim at increasing trade liberalization and transparency, promoting developing country enterprises and facilitating the integration of developing countries into the world economy.

Developing Services Sectors

Negotiations on future work in UNCTAD in this area produced a balanced and comprehensive set of terms of reference, covering both national and international policies, for the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries.

The Committee will deal with policies in the field of services with a view to contributing to development and thus increasing the participation of developing countries in world trade in services. It is mandated "to analyse and, assist, as appropriate, in the formulation of national policies aimed at strengthening the production, export and technological capacity of services sectors taking into account their level of development in different countries". As a result, UNCTAD now has the institutional responsibility for reviewing the development of services sectors in developing countries and of undertaking comparative analyses of policies in this area. The Committee will also focus on "examining difficulties particularly faced by developing countries in enhancing exports of services". Other tasks reflect the desire to increase knowledge of laws and regulations concerning the services sector, as well as to improve the collection and dissemination of statistics on trade in services.

From now on issues related to shipping and insurance will be dealt with in this new Standing Committee on Developing Services Sectors, but they will be the subject of separate sessions. Shipping policies will be reviewed "so as to identify elements leading to the development of competitive shipping sectors, in order to enhance the participation of developing countries in world shipping". UNCTAD will continue work with regard to port infrastructure development and multimodal transport processes. It will also analyse prospects for strengthening the insurance sector and enhancing the insurance trade of developing countries.

In implementing its functions, the Committee has been requested to pay due attention to the role of services in market-oriented development, including issues related to privatization and deregulation, but its work should not duplicate or overlap with the activities of the GATT.

Working Groups

Investment and Financial Flows

The need to avoid duplication with the work of other international bodies is also reflected in the mandate of the newly-created Working Group on Investment and Financial Flows; Non-Debt Creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows. In all these areas the Working Group will examine country experiences in order to identify positive factors as well as major impediments.

It will consider policies and measures designed to encourage investment, as well as the return of capital flight. It will also examine the role, and possible improvement, of Official Development Assistance (ODA) in promoting or supporting domestic investment efforts. New mechanisms for increasing investment will be explored, including equity and non equity-based finance and other market-based instruments.

These terms of reference were agreed on the understanding that the discussion on further evolution of the international debt strategy would be taken up by the Trade and Development Board in accordance with the Cartagena Commitment. It has since been decided that this topic will be discussed at the 1993 autumn session of the Board.

Trade Efficiency

The Working Group on Trade Efficiency will "examine how modern organization and technology can be used to foster greater participation in international trade, in particular by small and medium-sized enterprises". In this context it will identify possibilities to reduce transactional costs, develop domestic guidelines or models, promote the establishment of trade points, encourage the use of Electronic Data Interchange (EDI), foster transparency in trade-related information and identify possibilities for technical co-operation. A major task will be the preparation of an International Symposium on Trade Efficiency in 1994.

Investment and Technology Transfer

The Working Group on the Interrelationship between Investment and Technology Transfer will seek to identify the main factors conducive to technology transfer through foreign investment and analyse the role of intellectual property protection. It will examine through case studies the role played by different actors in the transfer of technology, including private firms, governments and international organizations. It will also consider the impact of technological change on investment decisions and production patterns and seek to encourage new initiatives, in particular in the field of environmentally-sound technologies.

Comparative Experiences with Privatization

As its title suggests, the Working Group on Comparative Experiences with Privatization will review different national experiences with privatization. Furthermore, it will "elaborate, as possible

(continued on page 7)

THE IMPORTANCE OF STABILITY IN CONTAINER STANDARDS

A recent UNCTAD report on trends in container dimensions stresses the importance of stable container standards in retaining the confidence of manufacturers and transport operators worldwide and in the long-term interest of the transport industry. Its publication is timely because last year the International Organization for Standardization (ISO) adopted a resolution confirming the introduction of an additional container height–9 feet 6 inches–into the ISO standard. The report analyses the impact of larger than standard containers on multimodal transport systems in developing countries, evaluating economic costs and benefits. It points out that oversized containers are incompatible with existing transport facilities and cause serious problems for users and providers of multimodal operations. The report concludes that if operators insist on introducing larger containers into developing countries, they should be prepared to bear the cost of adapting transport systems in these countries.

Homogeneity of Container Stock

Standards for the size and weight of dry cargo containers were set by the ISO in 1964. The essential parameters of ISO standard 668 established in that year concern dimensions and ratings (maximum gross mass). That standard reflects a fair balance between the different technical, safety, operational and economic requirements of maritime, rail and road transport. Its broad acceptance has been confirmed by the increasing homogeneity of the world container stock, which is the basic element of modern multimodal transport. Before the recent developments the only significant changes in container standards since their inception had been a small increase in height, to 8 feet 6 inches, and in weight, to 24 tons. By 1990, as the table shows, more than 92 per cent of the world's dry-freight container stock consisted of 8-foot 6-inch high, 20-foot wide and 40-foot long ISO standard containers, with a weight capacity of 20-24 tons. The UNCTAD secretariat has also confirmed that the vast majority of newly-manufactured containers corresponds to that standard. Stability of container dimensions has always been a main concern in UNCTAD's work on multimodal transport and containerization because containers are the most important element in modern door-to-door transport services. Stability is, therefore, vital for safeguarding investments in the different parts of the multimodal transport chain.

CONTAINERS IN USE, 1980 - 1990

Dimensions	1980		1986		1990	
	Thousands of units	%	Thousands of units	%	Thousands of units	%
8' 6" X 20' X 40'	1,407	73.4	3,198	88.3	4,710	92.3
9' 6" X 20' X 40'	21	1.1	95	2.6	310	6.1
Others	490	25.5	330	9.1	83	1.6
Total	1,918	100.0	3,623	100.0	5,103	100.0

Note: For 1990 the figures refer to twenty-foot equivalent units. Only dry freight containers were taken into account.

Source: "Containerization International" and "Cargoware International"

Oversized Containers Proliferate

During the second part of the 1980s, however, there was a strong growth in the use of non-standard containers. As the table suggests, most of these special containers differ only in that they are higher than the norm: 9-feet 6-inches against 8-feet 6-inches. Because these so-called high-cube containers have the same length and width dimensions as standard containers, they pose few problems during sea transportation in existing container vessels. In ports, and especially during inland transportation, however, their handling and movement have often been limited or even impossible. Since 1986 there has been a proliferation of these high-cube containers, and in 1990 they accounted for over 6 per cent of the total container stock. There also has been some construction of longer containers (45 and 48 feet), as well as of containers capable of carrying loads heavier than the standard 20 tons and the generally accepted 24 tons of maximum gross mass. These longer and heavier containers, however, account for less than 2 per cent of the total.

Longer than ISO standard containers have been introduced mainly for the carriage of high volume, low-density cargo. They offer certain economic and administrative advantages to shippers. Because of a reduction in the number of vessels required, these longer containers incur lower transportation and documentation costs and port handling charges; they also create savings in energy consumption and air pollution, and reduce road congestion in port areas. The use of such containers has been largely limited to the United States. Indeed, there are indications that the markets where these containers are in demand are approaching saturation and orders for them have been declining.

Problems for Developing Countries

For developing countries, the introduction of non-standard containers creates numerous problems of handling and carriage. Highways, railways and transport vehicles all have been constructed so as to accommodate the previously existing width, height, length and weight standards. With regard to the 9-foot 6-inch high containers, the infrastructure constraints are such—not only in developing countries—that the inland transportation of such containers is often not possible. There seems to be no prospect, therefore, of these high-cube containers finding universal acceptance.

Furthermore, a number of developing countries have recently invested heavily in both equipment and infrastructure at ports so as to handle standard-sized containers. This is a particularly relevant consideration in the case of containers longer than the ISO norm. To handle containers more than 40 feet long, in fact, a port authority would have to replace existing gantry cranes, fork-lift trucks and trailers. The cost of a new gantry crane is approximately US$ 5-6 million. In order to be equipped with just four cranes, a port would thus have to spend US$ 20-24 million in scarce foreign exchange without any real hope of being able to recover the cost of the obsolete cranes built to handle 40-foot containers. The additional investment involved is clearly beyond the capacity of most developing countries in the present economic and financial climate.

Pressure to change container standards has been growing within the ISO Technical Committee for several years. In 1987, a working group was assigned the task of developing a standard for a new series of containers which would increase permissible dimensions of width,

height and length. However, at the sixteenth session of the Committee in May 1991 the technical report on future wide-body containers was rejected because of incompatibility with existing systems. All previous changes in international standards on container dimensions had been of an evolutionary character, and did not influence the interchangeability of containers with those of the existing standard. The wide-body containers with a different base configuration proposed in the report would be incompatible with elements in the existing transport chain, including the infrastructure of inland transport and ports. As noted earlier, however, the Committee confirmed the introduction of an additional height–9-feet 6-inches–into the ISO standard.

Conclusion

The UNCTAD report concludes that most countries are not ready for a change in international container standards. Where loading units with larger dimensions–such as 45-, 48- and 53- foot containers in the United States–have been introduced, this has been done in order to meet specific requirements, and was possible because the dimensions chosen were still within the limits permitted by the transport regulations of the country or region concerned. The present economic situation in many developing countries, however, precludes them from adapting their transport systems to larger container dimensions. It has already been noted that even the high-cube container with otherwise standard width and length raises problems of handling and carriage; changes in the latter dimensions or in maximum gross mass would have even more costly implications. Moreover, the economies and trades of developing countries do not as a rule require the introduction of new container sizes. Operators from developed countries pressing for the use in developing countries of non-standard containers should, therefore, be aware of this situation and should be prepared to bear the costs involved in the introduction of such containers into developing countries.

(continued from page 5)

guidelines for policy-makers, basic elements for consideration in formulating privatization programmes and plans''. It will also serve as a forum for the presentation of such programmes and for the exchange of relevant information.

The Working Group will consider economic and social medium- and long-term objectives of privatization processes, and factors pertinent to the design and implementation of privatization programmes. Such factors include criteria for selecting enterprises to be privatized, the relationship between privatization and domestic financial markets, foreign investment, patterns of ownership and control, corporate performance and competition, and mechanisms for employment creation.

Expansion of Trading Opportunities for Developing Countries

This Working Group will be expected to identify national measures and policies for enhancing the export supply capability of developing countries as well as trade expansion opportunities arising from liberalization of trade measures. It will deal with diversification, export-oriented investment, import liberalization, trade promotion and marketing. It will analyse and identify trading opportunities created by structural adjustment policies, by liberalisation measures such as those adopted to implement the results of the Uruguay Round and by arrangements to promote regional integration.

The major effects of the Board's decisions on the terms of reference could be summarized as follows. First, UNCTAD's work on policy analysis has been refocussed, with greater weight being given to national policies and domestic experiences. Second, the Board's subsidiary bodies have been given fresh orientations with regard to traditional areas of work such as commodities, investment and financial flows, trade, technology, and ECDC. Third, UNCTAD's mandate on services has been widened considerably. Fourth, broader perspectives have been given to work in such areas as the transfer of technology and trade efficiency. Fifth, UNCTAD has been given a mandate to work in new areas, such as poverty alleviation and privatization.

Board Executive Sessions

Apart from the terms of reference for its new subsidiary bodies the Board also adopted a set of guidelines for the conduct of its meetings in executive session. Provision for these short, half-day or one-day meetings, to be convened at the level of Permanent Representatives of member States, had been made by UNCTAD VIII. These executive sessions are aimed at strengthening the policy function of the Board in adapting UNCTAD's work to changing worldwide economic circumstances, reviewing work programmes and priorities, promoting greater efficiency and reacting to reports from its subsidiary bodies in order to give impetus to ongoing work.

CUTTING THE COSTS OF TRADING

Apart from launching a radical institutional reform, UNCTAD VIII also broke with the past by dealing with international trade issues from a completely new perspective, that of efficiency. The Conference called for the creation of guidelines for concrete action towards trade efficiency at national and international levels and requested that an International Symposium on Trade Efficiency be convened in 1994. The preparatory work for the Symposium is expected to give rise to close co-operation between UNCTAD and enterprises, government administrations and non-governmental organizations. Such co-operation will develop in the context of the Working Group on Trade Efficiency which was created by the Conference *(see page 5)*. UNCTAD will also reinforce its analytical and technical co-operation work in this field.

The Scope for Greater Trade Efficiency

Efficiency in the conduct of international trade transactions is essential for the expansion of the trade of developing countries in particular, and for the mobilization by them of external resources, including private investment. In the past, the main emphasis in the pursuit of greater efficiency has been placed on improving physical infrastructures. Inadequate trade practices and organizational arrangements, however, are also known to be an important source of misallocation of resources and low competitiveness.

International trade in the 1990s will rely increasingly on a number of information-intensive infrastructures or "networks". A consequence of this is that the competitiveness of the various players involved in international trade will become more closely linked to their ability to: acquire and master generic information technologies, basically telecommunications and computer technologies; build, operate and maintain technical equipment such as communications lines and exchange systems, computer facilities, as well as local physical infrastructures; and access the above-mentioned trade, finance, information and procedural networks.

Recent advances in information technology offer considerable opportunities for improving trade efficiency. A case in point are the costs involved in document preparation and handling in connection with the movement of goods. It is estimated that the total cost of paperwork and procedures is equivalent to around 10 per cent of the total value of international trade. Thus, the UNCTAD secretariat estimates that a mere improvement of 25 per cent in the efficiency of such procedures worldwide would yield savings of roughly $75 billion annually.

One of the objectives of such a process would be so-called "paperless trade", whose achievement would depend on further refinements to such systems as the electronic data interchange (EDI). This is the replacement of paper-based exchanges of information between trading partners by the direct transmission of structured data between computers. Customs entries and invoices, fund transfers, transport documents and the like take the form of standardized electronic messages, automatically generated by one computer and transmitted to another.

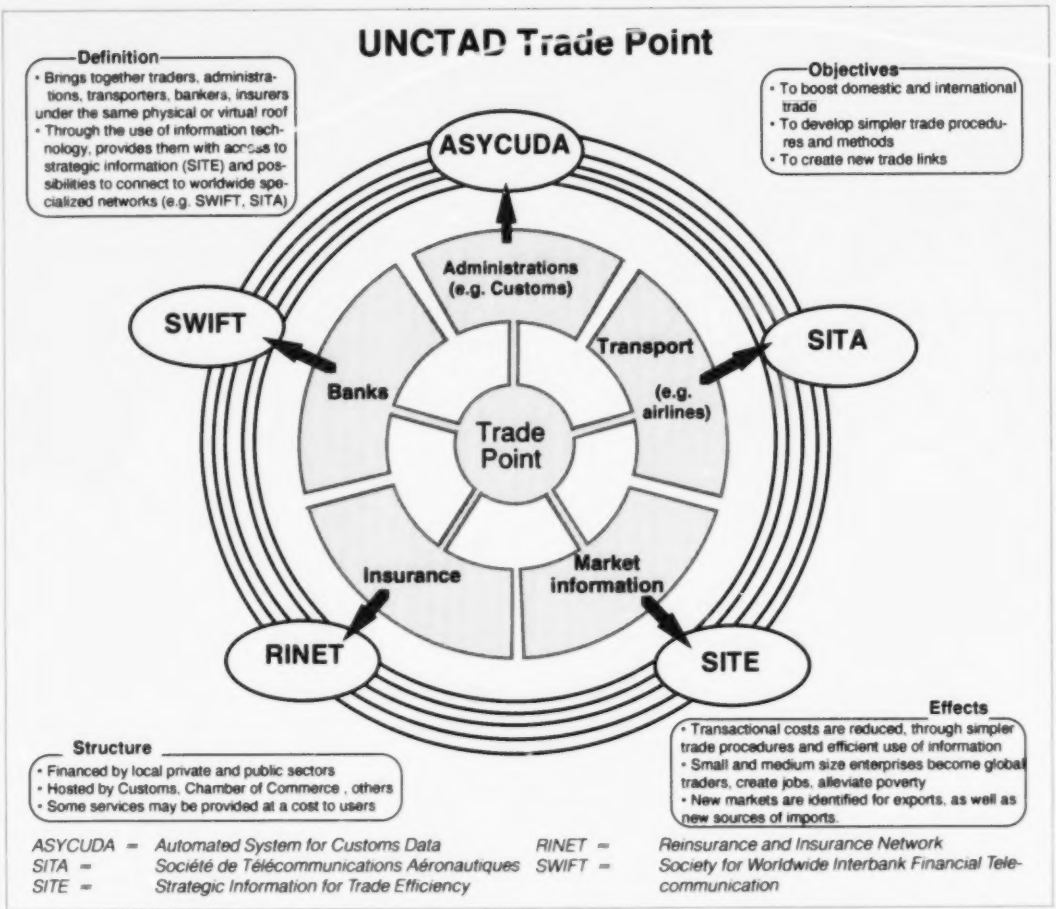
Objectives

A major objective of UNCTAD's future work in this area will be to promote a greater awareness of the new possibilities offered by information technologies and appropriate organizational models as a means of reducing the costs of trading. A second objective will be to promote the integration of small and medium-sized enterprises (SMEs) in international trade. In many countries, SMEs constitute an essential part of the productive system as well as being the main source of job creation. They therefore have the potential to be a powerful instrument to foster development and alleviate poverty. By allowing SMEs to participate efficiently in world trade, the international community would thus reinforce the link between trade and development.

Another aspect of the programme will be the design and promotion of efficient and harmonized infrastructures for trade and trade-supporting services, such as banking, insurance, customs and transport. The promotion of EDI-related techniques will feature prominently in this respect. Finally, an attempt will also be made to design and offer national models for trade efficiency. The main purpose of these models will be to give beneficiary countries concrete means of fostering an appropriate economic climate for the expansion of trade and investment, to reduce the scope for improper practices and to develop their human resources for trade and trade-related services. Substantial work will need to be carried out to compare national experiences.

The Creation of Trade Points

In order to demonstrate the functioning of the trade efficiency concept in a concrete situation, UNCTAD created the first-ever Trade Point in Cartagena de Indias, Colombia, the site of UNCTAD VIII. In less than two months and thanks to local private financing and the support of the


UNCTAD Trade Point
Definition
• Brings together traders, administrations, transporters, bankers, insurers under the same physical or virtual roof
• Through the use of information technology, provides them with access to strategic information (SITE) and possibilities to connect to worldwide specialized networks (e.g. SWIFT, SITA)
Objectives
• To boost domestic and international trade
• To develop simpler trade procedures and methods
• To create new trade links
ASYCUDA
Administrations (e.g. Customs)
SWIFT
SITA
Transport (e.g. airlines)
Banks
Trade Point
Insurance
Market information
RINET
SITE
Effects
• Transactional costs are reduced, through simpler trade procedures and efficient use of information
• Small and medium size enterprises become global traders, create jobs, alleviate poverty
• New markets are identified for exports, as well as new sources of imports
Structure
• Financed by local private and public sectors
• Hosted by Customs, Chamber of Commerce , others
• Some services may be provided at a cost to users
ASYCUDA = Automated System for Customs Data
SITA = Société de Télécommunications Aéronautiques
SITE = Strategic Information for Trade Efficiency
RINET = Reinsurance and Insurance Network
SWIFT = Society for Worldwide Interbank Financial Telecommunication

Colombian authorities, the Cartagena Trade Point was operational by the time the Conference opened on 8 February. The presence under one roof of banks, insurers, shipping lines, airlines and customs officers permitted several Colombian exporters to complete the necessary procedures at a much lower cost and in a shorter time than before. In some cases, new markets were identified through the Trade Point. Moreover, the Cartagena experience revealed that, given access to strategic information, SMEs can use it as efficiently as large transnationals.

Many of the Ministers and delegates present for UNCTAD VIII visited the Trade Point. Most of them declared that they had been impressed with the results obtained. In response to the interest shown, UNCTAD is now preparing to establish Trade Points in 16 pilot countries representing different types of economic environment. As soon as they are connected, inter-country trade links will increase considerably and their economic impact will be multiplied.

The 1994 Symposium

The Trade Efficiency Symposium is expected to bring together governments, enterprises and other participants in international trade. It will offer a display of modern tools and techniques designed to make trading more efficient. Because of its visibility and originality, the Symposium should generate a global awareness of the necessity, and of the possibility, to trade more efficiently. Whatever the end result of the Uruguay Round, the Symposium should add an important dimension to the answers that the international trading community has been seeking. If tariffs and other obstacles to trade are reduced only marginally by the Round, more efficient trading should at least help to maintain a climate of dynamism in international trade. If, on the contrary, the Round concludes successfully, the Symposium will reinforce its outcome and contribute significantly to the integration of developing countries and economies in transition into the global market.

COMBATING GLOBAL WARMING

As part of the preparations for the United Nations Conference on Environment and Development–The Earth Summit–, the UNCTAD secretariat recently published a study on how an international system of tradeable entitlements could limit the worldwide growth of the carbon dioxide emissions which cause global warming.[1] UNCTAD's proposal has two main aspects: a market-based instrument for controlling such emissions at minimum cost; and an effective mechanism for transferring environmentally-sound technologies and financial resources to developing countries, to enable them to contribute to the global effort to control greenhouse gases without holding back their own development.

Initial resistance from some environmentalists to the idea of globally controlling carbon emissions through "tradeable permits" schemes has been largely overcome as a result of a better understanding of the technicalities involved, the growing publicity given to similar schemes being operated in the United States and the positive coverage given to the UNCTAD study by the international press. The recent agreement on a Framework Convention on Climate Change gives added significance to the notion. Indeed, in the absence of specific targets, schedules and other control mechanisms, the idea of a global system of tradeable carbon emission entitlements for the control of greenhouse gases could become an important rallying point in the follow-up to the Earth Summit. This article provides an outline of the UNCTAD proposal drawn from the Overview of the study by the Secretary-General of UNCTAD, Mr. K.K.S. Dadzie.

Global Warming and Development

Various gases in the earth's atmosphere absorb infra-red radiation and act as a blanket which helps to trap the heat absorbed and re-emitted from the earth's surface. Human activity is increasing the concentration of these so-called greenhouse gases, and, in the words of the Intergovernmental Panel on Climate Change (IPCC), "... resulting on average in an additional warming of the earth's surface".

The policy issues raised by global warming are complex and unique. Not least of the complexities is the need to deal with risk and uncertainty. As the IPCC has put it, "the unequivocal detection of the enhanced greenhouse effect from observations is not likely for a decade or more". And yet "continued emissions of long-lived gases such as carbon dioxide, nitrous oxide and chlorofluorocarbons (CFCs) at present rates would commit us to increased concentrations for centuries ahead". There is now a widely–though not universally–shared view that when faced with risks which are menacing and most likely irreversible, uncertainty argues strongly in favour of prudent action and against complacency.

Carbon dioxide has been responsible for over half of the increased greenhouse effect in the past and is likely to retain this role in the future. Emissions of this gas, in turn, are mainly the result of the burning of fossil fuels. A large number of the world's economies are still engaged in the process of industrialization which has already been completed in Europe, North America and Japan. Although there is no reason to believe that to-day's developing economies should follow an identical path, the broad characteristics of the development process are clear enough: development means industrialization, and industrialization entails the systematic application of controlled mechanical energy to an ever-widening range of productive activities. Although other sources of power undoubtedly have a role to play, a large proportion of this energy must come, in the foreseeable future, from fossil fuels.

The Policy Conundrum

The dynamics of global warming and the requirements of development, therefore, appear to be on a collision course. Dealing with the former will require a significant reduction in the emission of greenhouse gases, in particular carbon dioxide. But in the developing world there is a need for: continued rapid industrialization, as in parts of South-East Asia; a revival of industrialization, as in parts of Latin America; or the strengthening of an incipient process of industrialization, as in much of Africa and parts of Asia. All this implies progressively larger increases in carbon dioxide emissions.

The way out of this conundrum cannot simply be to exempt developing countries from participating in international efforts to reduce emissions, although this might be a reasonable first step. Developing countries account for a growing proportion of global carbon emissions as a result of large populations and fast-growing economies combined with a scarcity of capital and expertise for deploying new, cleaner tech-

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[1] *"Combating Global Warming: An UNCTAD Study on a Global System of Tradeable Carbon Emission Entitlements" (UNCTAD/RDP/DFP/1) brings together the experience of experts, academia and private business and was made possible through the generous financial support of the Governments of the Netherlands and Norway. It is available from the UNCTAD secretariat.*

nologies. An international agreement that did not include provisions for emission control by these countries would not, therefore, be able to achieve its objectives.

The alternative must be to seek policy approaches that meet three principal criteria. These are:

- That they be capable of bringing about the overall global reduction in emissions required by the collective judgement of the international community, based on available scientific evidence;
- that they allow continued economic development in all countries, and enable the process of industrialization to proceed unimpeded in those countries in which this process is incomplete;
- that they provide appropriate incentives to ensure that industrialization in developing countries, and the replacement, renewal and expansion of industrial facilities in developed and developing countries, embody technology and practices that are emission efficient.

The Case for Tradeable Emission Entitlements

Any search for a mechanism to limit greenhouse gas emissions that could be used in a broad-based international agreement must give high priority to the need to achieve such a limitation at the lowest possible economic cost. This means the identification and exploitation of the cheapest opportunities for reducing emissions. Yet, there is no way that those actually negotiating such an agreement can be in possession of the information required to make such an identification. Indeed, countries are likely to have to enter such an agreement with only approximate information on what their own marginal costs of limiting emissions are likely to be, and with even less of an idea of how these costs might evolve during the life of the agreement. A successful control mechanism must, therefore, hold out the prospect that least-cost solutions to emissions limitation objectives will be found, even when information on costs available to regulators is incomplete, and must also provide governments with flexibility in meeting their objectives.

A transferable entitlement system meets these criteria. Under such a system, entitlements allowing emissions of a certain magnitude are created and distributed to the economic actors involved. The trading of entitlements among participants would be allowed. An actor that finds himself with entitlements to a lower volume of emissions than he is currently responsible for has two options. He can cut back on emissions until they correspond to his entitlements, bearing whatever costs that process entails; or he can purchase, or rent, additional entitlements from other participants, paying whatever price the market demands. Clearly, the latter option will only be chosen if it is less costly than the cheapest method available of reducing emissions. Likewise, the participant offering entitlements for sale will require a price that exceeds the cost of producing a saleable entitlement, *i.e.* greater than the cost of cutting emissions in his territory. Thus, a tradeable entitlements system produces any given level of global reductions at least cost, even though no single participant in the system is in a position to know, or evaluate the cost of all opportunities for achieving reductions.

Experience at the national level with tradeable emission entitlements has demonstrated that the cost savings of such a system as compared with traditional regulatory approaches can be quite large. In the United States most estimates put the savings achieved by allowing emissions trading under the Clean Air Act at over $10 billion.

The most telling feature of emission entitlements systems, however, is that, assuming the market is competitive, the advantages described above can be secured in full whatever the initial distribution of entitlements. This is a significant characteristic, because it provides a means for tackling the development dimension of emission control in the context of a fully cost-effective system.

The initial allocation among governments of emission entitlements could be undertaken in a way that would endow developing countries with more entitlements than required by present and prospective emissions, and developed countries with fewer entitlements than required by present emissions. In addition to achieving cost-effective reductions, such a distribution would:

- Provide developing countries with room to expand emissions of greenhouse gases as required by their on-going industrialization;
- allow them to sell or rent entitlements they do not presently require, thereby generating a flow of foreign exchange that could be used to finance emission-efficient investment;
- provide policy-makers in developing countries with a set of incentives that ensure that their industrialization proceeds in a way that minimizes emissions. It is only by pursuing emission efficiency that a developing country can protect the source of income represented by the excess of entitlements over actual emissions.

The distribution pattern spelled out above would make "free riding" quite costly, and would reduce any tendency for emission-intensive industries to be relocated from developed to developing countries.

Distribution Criteria

The finding that the initial distribution of emission entitlements can be used to reconcile the need for global reduction of greenhouse gases with the need for further industrialization in developing countries is an important one. But it does not answer the question of whether there is a distribution pattern that will bring about this reconciliation in a way that produces net benefits for all countries entering into an international agreement. This issue is central to the case for using tradeable entitlements as an international control mechanism.

A number of different concepts of fairness or equity are relevant to a discussion of criteria for the initial distribution of entitlements. One such concept would be that each individual inhabiting the earth has the same rights and responsibilities *vis-à-vis* the earth's atmosphere as any other. This "egalitarian" concept would suggest that emission cuts should be undertaken in proportion to population, and that entitlements should be allocated also in proportion to population. Other concepts would view equity as having been achieved if the net cost of reducing emissions as a proportion of GDP were the same for all countries–"horizontal equity"–and would seek an allocation formula for entitlements that produced this outcome. A further concept of equity–"vertical equity"–would allocate progressively higher costs in terms of GDP to wealthy countries, and would devise an allocation formula that produced such an outcome.

Another important concept is the rule of compensation, which states that a policy should be pursued as long as those who gain from the policy can compensate those who lose, and can do so to an extent that allows both winners and losers to be better off than if the policy had not been adopted.

A different way of approaching the distribution issue is to seek out criteria that produce gains for all participants, as compared to a situation in which there is no international agreement, and then examine the equity properties of the criteria that meet this objective. In this approach, the analysis begins with an examination of a number of allocation rules. Rules that apply the same way to all countries do not pass the test of providing gains to all participants, although some perform better than others. Indeed, some of these uniform rules, such as equal entitlements *per capita*, polarize negotiations by substantially favouring one party over another. Rules that are constructed by combining uniform rules perform better. For example, a rule based on a weighted average of emissions *per capita* and equal percentage cuts in emissions could meet the objective of providing gains for all in circumstances in which the cost of global warming is assumed to be high. The reason this rule has limited success is that it favours the "average" country, at the expense of countries with more extreme values for emissions *per capita*.

An alternative approach would be to allocate entitlements according to two different rules, each being applied to a different group of countries. The two-tier allocation rule–in particular a rule that imposes a different obligation on poor countries than on industrialized countries–has some advantages but fails to provide gains for countries that are neither poor nor industrialized, but somewhere in between.

A final rule that was evaluated in the study is the "Kantian rule", which requires each country to choose an emissions reduction objective that is at least as large as the uniform reduction level it would like all countries to undertake. This rule meets the objective of making all countries better off compared with a situation in which there is no international agreement and provides sizeable gains to developing countries. The reason this rule works well is that it allows obligations to vary across countries, and recognizes that some countries have a greater preference for cutting emissions than others. Since the major industrial countries are likely to benefit most from control, they should bear the greater burden of emissions reduction in the initial allocations of entitlements. However, trading entitlements will reduce their cost burden, and the transfer of resources to the poor countries will provide these countries with an incentive to accede to the agreement, proceed with their own industrialization and reduce their emissions.

The conclusion that emerges from the above is that whether one approaches the search for an allocation rule primarily from the standpoint of equity or primarily from that of mutual acceptability, distribution rules that meet both objectives can be found.

Implementation Issues

The special circumstances associated with establishing a global version of a tradeable entitlements system for greenhouse gases give rise to some potential pitfalls, such as the abuse of market power or hoarding. It is, however, possible to design the system to avoid them or to mitigate their importance.

Market power can exist on either the buyer's or seller's side. The evidence suggests that market power is not likely to pose a serious problem in a global entitlements market. Successful cartels are difficult to establish and maintain for any commodity, and greenhouse gas entitlements would not be an exception.

Cartelization is unlikely where the initial allocation of entitlements and the market participants are defined in such a way as to create a large number of buyers and sellers.[2] In addition, new entitlements could be created by the certified destruction or absorption of greenhouse gases. The ultimate protection against the accumulation of market power is the possibility open to all nations to withdraw from the agreement.

Hoarding of entitlements is a response to price and supply risks. In a vigorous global market with large numbers of buyers and sellers and a flexible supply strategy, the preconditions for hoarding would be greatly undermined. In addition, organized markets for futures contracts would enable purchasers to lock in the future price and availability of entitlements, thus further reducing the need to hoard entitlements.

An important condition for implementing a tradeable carbon emission entitlements system, therefore, is an efficient market. A successful spot market would require the issuance of a stock of standard instruments corresponding to the target emissions level. Though the global market might be overseen by an international environmental protection body, which could be within the United Nations system, experienced private sector exchanges offer efficient structures for trading. These exchanges provide international linkages, workable trading rules, reporting and regulatory requirements, trade clearing and financial integrity that would benefit the global entitlements market. Technologies associated with these exchanges could be shared with developing countries wishing to develop spot markets.

Monitoring and Enforcement

Finally, monitoring and enforcement of the system would need to be pursued at both the national and international levels. National authorities would have the major responsibility for monitoring the activities of sources of emissions within their borders. At the international level, a designated organization, possibly within the United Nations system, would have responsibility for: receiving and reviewing monitoring reports from, and issuing compliance assessment reports for, the signatory nations; maintaining an up-to-date accounting system of national obligations and achievements, including changes occasioned by trading; management of a greenhouse gas entitlement bank; and providing technical assistance.

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[2] *A tradeable entitlements system could be designed in which all trades take place exclusively between governments, or between private parties, or with some mix of the two.*

REVIEWS

TAMING COMMODITY MARKETS

Gamani Corea
Manchester University Press, 1992,
271 pp., £14.95

This book is a narrative of the way the issue of international commodity trade unfolded in UNCTAD, leading to the agreements on the Integrated Programme for Commodities (IPC) and the Common Fund in 1976. The author, who as Secretary-General of UNCTAD from 1974 to 1984 played a central role in the negotiations, first analyses the course of the negotiations and the long road to the ratification of the agreement, then discusses its mixed, and often disappointing results. He explains its lessons for negotiators, governments and NGOs and asks whether UNCTAD should persevere in its attempt to implement the programme or abandon it in favour of some other course. His reflections on the experience of the IPC provide clues to this and other questions. Mr. Corea concludes that trade in commodities remains a crucial element in the search for an equitable global economy and that the issue of stabilizing and strengthening commodity prices deserves continued attention. The book also shows how the United Nations could establish an effective regime for the regulation of commodity trade.

UNCTAD REVIEW

Number 3
United Nations publication
Sales No. E.91.II.D.21

The third issue of the *UNCTAD Review*, recently published, contains five articles, listed below, and a note on *Trade and transport costs: Some issues concerning measurement* by Raymond Glasgow.

- *Creditor countries' banking regulations and Third World debt: The technical, political and institutional issues*, Dr. Stephany Griffith-Jones
- *Developing countries' exports of textiles and metals: The question of sustainability of recent growth*, Georg Kell and Serafino Marchese
- *An analysis of Japanese trade with developing countries*, Robert Z. Lawrence
- *The relationship between insurance, financial development and market structure in developing countries*, J. François Outreville
- *Forecasting coffee consumption with a flexible consumer demand function*, Dickson Yeboah

THE ECONOMIC AND COMMERCIAL IMPLICATIONS OF THE ENTRY INTO FORCE OF THE HAMBURG RULES AND THE MULTIMODAL TRANSPORT CONVENTION

United Nations publication
Sales No. E.91.II.D.8

This study contains an article-by-article discussion of the Hamburg Rules and the Multimodal Transport Convention. Adopted in 1978, the Hamburg Rules were designed to strike a fairer balance between carriers and shippers in the allocation of risks, rights and obligations with regard to liability. The Multimodal Convention, adopted in 1980, sought to create a measure of uniformity in multimodal transport. Looking ahead, the study concludes that the coming into force of the two conventions will streamline the multitude of existing liability regimes governing ocean and combined transport; will endorse many of the existing commercial practices but will have limited economic consequences; and will result in a better protection of shippers' interests.

FINANCIAL DEEPENING AND EFFICIENCY

Yilmaz Akyüz
UNCTAD Discussion Paper–No. 43,
February 1992

Many developing countries have recently introduced radical financial policy reforms including the freeing of interest rates, reducing or eliminating direct credit allocations and easing restrictions on external finance in an attempt to restore growth and stability. This *Paper* undertakes a critical examination of the underlying theory by looking at the role of the financial system and financial policies in industrialization and development, drawing on the experience of a number of developing countries. The first section discusses the links between interest rates and savings and reviews the concept of financial deepening. The second discusses the concept of efficiency as it applies to the financial system and argues for intervention and regulation. The last section looks at how the efficiency of the financial system depends on the way it is organized. It compares the Anglo-American model of financing centred on stock markets with the situation in Germany and Japan where this role belongs primarily to the banks, and concludes that most developing countries would be better off by improving their banking system and by upgrading the quality of regulation, supervision and intervention rather than by adopting the Anglo-American model.

NOTES

COPPER STUDY GROUP SET UP

Seventeen developed and developing countries which account for over 54 per cent of world copper trade, together with the European Community, have set up the International Copper Study Group under UNCTAD auspices. The Group will exchange information, seek to improve copper statistics, make regular assessments of the market situation, consider special problems or difficulties in the international copper economy and promote copper consumption.

EXPERTS DISCUSS MULTIMODAL TRANSPORT DEVELOPEMENTS

Experts from both the private and public sectors met under UNCTAD auspices from 9–13 March to examine recent developments in the field of multimodal transport and containerization as well as problems experienced by users and providers of these services. Particular attention was given to the implications of the growing tendency for container transport to move into total distribution systems involving innovative technologies and new operational methods, such as block train services and electronic data processing (EDP) and electronic data interchange (EDI). The experts also discussed transportation problems faced by countries in transition and the practical problems posed by the use of oversized containers.

NEW SUGAR AGREEMENT

The United Nations Sugar Conference which met under UNCTAD auspices from 16–20 March adopted a new International Sugar Agreement, the fifth since international cooperation on sugar started in 1937. The Agreement will come into effect on I January I993 but will enter into force definitively when instruments of ratification have been deposited by States holding 60 per cent of the votes. It aims at ensuring enhanced international cooperation on sugar, providing a forum for intergovernmental consultations on ways to improve the world sugar economy, facilitating trade by collecting and providing information on the sugar market and other sweeteners and at encouraging an increased demand for sugar. It does not, however, contain measures aimed at regulating price levels. In all, 63 countries took part in the Conference, including all the main producers and consumers. The United States did not subscribe to the new Agreement.

TRADE PROMOTION WORKSHOP

With the financial support of the Ukrainian authorities, UNCTAD organized an Interregional Workshop on the Expansion of Trade and Economic Co-operation between Developing Countries and the Republics of the Commonwealth of Independent States (CIS), in Kiev, Ukraine from 19-21 May. Participants included about 50 trade representatives or economic counsellors from 35 developing countries and the CIS. Topics discussed included changes in the foreign trade systems of the Republics of the CIS; payments arrangements; the establishment of direct trade relations between developing countries and the CIS; and an analysis of the potential for trade expansion and economic co-operation.

WORKSHOPS ON INTERNATIONAL TRADING IN RICE AND SUGAR

Three commodity trading workshops were organized in Sub-Saharan Africa during May by UNCTAD's Service on Import Management and Policies for Food Commodities. In Mauritania and The Gambia, international trading in rice and sugar was the workshop theme while in Senegal the focus was on rice trading. The objective in each case was to keep both governmental and private importers of these commodities abreast of latest market developments and of the commercial and technical aspects of dealing in international markets. In Mauritania and The Gambia the workshops were organized in co-operation with the relevant Chambers of Commerce and Industry while in Senegal, the Caisse de Péréquation et de Stabilisation des Prix co-sponsored the meeting. Altogether 55 participants from the public and private sectors attended the meetings.

SEMINAR ON AFRICA'S MINERAL SECTOR

In co-operation with UNDP and the Government of Morocco, UNCTAD organized a Seminar on the Role of the Mineral Sector in the Economic Development of Africa in Ouarzazate, Morocco from 27-30 April. Participants from ten developing countries in Africa, industry experts from developed countries and representatives of international and regional organizations took part. Issues discussed included resource assessment and exploration, small-scale and artisanal mining, investment in the mineral sector and environmental problems. The seminar was the third in a series organized in the context of an UNCTAD research/technical co-operation project largely financed by Sweden and Norway. Previous seminars were held in 1989 in Santiago, Chile for the South American region and in 1990 in Perth, Australia for the Asian region.

PUBLICATIONS

- Review of the Implementation, Maintenance, Improvement and Utilization of the Generalized System of Preferences (TD/B/C.5/142 and Suppl.1)
- Transfer and Utilization of Technology in Least Developed and Island Developing Countries–A Country Study on Fiji (UNCTAD/ITP/TEC/30)
- Andean Joint Enterprises: Analytical Compendium (UNCTAD/ECDC/222)
- Prospects for the World Cocoa Market until the Year 2005 (UNCTAD/COM/5)
- Preparation of a Successor Agreement to the International Cocoa Agreement, 1986 (TD/COCOA.8/3)
- Consultations on Harmonization and Improvement of the Rules of Origin (TD/B/C.5/141)
- Regulation of Foreign Investment in Latin America and the Caribbean (UNCTAD/ECDC/220)
- Report of the Intergovernmental Group of Experts on Restrictive Business Practices at its tenth session (TD/B/1310-TD/B/RBP/85)
- Periodic Report 1990–Policies, Laws and Regulations on Transfer, Application and Development of Technology (UNCTAD/ITP/TEC/16)
- Utilization and Commercialization of United Nations System-Funded R and D Results–Case Studies on the Indian Experience (UNCTAD/ITP/TEC/20)
- Export Processing Free Zones of Sub-Saharan Africa (UNCTAD/ECDC/225, Part I)
- Trade Financing in Developing Countries: An Assessment and Evaluation of Existing Schemes and Future Requirements (TD/B/1300/Supp.1/Rev.1)
- International Sugar Agreement, 1992 (TD/SUGAR.12/6)

UNCTAD documents are available for reference at all United Nations Information Centres and at depository libraries for United Nations publications. The yearly subscription for all mimeographed UNCTAD documents is US$250 including postage. Requests for such subscriptions as well as orders for individual sales publications should be addressed to: United Nations Sales Section, Palais des Nations, 1211 Geneva 10, Switzerland.

FORTHCOMING UNCTAD MEETINGS

- ***July***

  2-3
  Ad hoc Meeting on Tungsten
  (Geneva)

  6-24
  United Nations Cocoa Conference, 1992,
  (Geneva, second part)

- ***September***

  3-9
  Working Party on the Medium-Term Plan and the Programme Budget
  (Geneva, twenty-first session)

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